COBIT 5 Uses Balanced Scorecard to Drive and Demonstrate Performance Improvement

By Myles Suer

COBIT® 5 should be a big deal for all practitioners of IT management. There are moments in IT management when a practitioner may feel like the Scarecrow in The Wizard of Oz who so desperately wants a brain. COBIT 5 is like adding that much-needed brain. Specifically, it adds the level of governance needed to ensure that benefits are delivered, risk is reduced, resources are optimized and, most important, stakeholder transparency is established. While the governance function does have process goals and metrics for measuring success, the most important element of driving transparency in COBIT 5 is that it embraces an updated version, compared to COBIT 4.1, of the balanced scorecard (BSC) methodology for structuring and communicating performance measurement and places it more prominently at the front of the framework in the goals cascade. This approach enables IT organizations to establish a culture of performance management and accountability.

Why Is the Balanced Scorecard Approach Important?
The original balanced scorecard was developed by David Norton and Robert Kaplan in the mid-1990s. It aimed to move enterprises away from looking only at short-term lagging indicators, namely current period financials, in evaluating an overall enterprise performance. After all, most investors are long-term investors and, as such, are buying discount future performance as much as current performance. “According to the Balanced Scorecard Collaborative, no less than 60 percent of Fortune 500 companies use the balanced scorecard in some form.”¹ Yet, there is one enterprise department that historically has not actively managed performance to a balanced scorecard: IT. This is because IT measures integrated performance 60-120 days after the first data points were created. This needs to change for IT organizations to get a seat at the business table.

Real Time Vs. Historical View—Time Value of Information
IT organizations are operational reporting focused in a day-by-day or sometimes minute-by-minute fashion. Holistic IT measurement occurs only on a quarterly basis with the oldest data being as old as 120 days. Simply put, IT leadership can report but not manage. “Control is different than ‘reporting’ in that it implies the possibility for management intervention if things go out of control. Control implies feedback in which management is actively involved. Reporting, on the contrary, is passive. For control to be effective, therefore, data must be timely and provided at intervals that are effective for intervention.”²

Put even more simply, IT leaders cannot be held accountable when they do not have the information available to take corrective actions. They need to see that they are at risk of missing a goal or, if they have already missed it, they need to see how to take corrective action.

How a Balanced Scorecard Is Used With COBIT—Overall Governance Layer, Personas and Disciplines
In COBIT 5, generic scorecards have been created for the enterprise and IT as a whole. Both ask end-to-end questions about IT from a horizontal dimension. Obviously, a scorecard applied to an organization will have business- and industry-specific key performance indicators (KPIs) added. Additionally, organizations need scorecards that go after more than one IT persona or IT leadership role. Cascaded scorecards need to exist for key IT personas, such as vice president of applications, vice president of operations, chief information security officer and so on. Obviously, these need to fit the structure of the organization.

The quality of the IT disciplines also needs to be judged using the BSC framework. Scorecards may be built for numerous IT
disciplines, including IT service management, project and portfolio management, quality management, automation management, and security management. In all cases, the scorecard allows IT management to show the value and improvement driven by investment in each IT discipline.

For example, in a balanced scorecard around managing service requests and incidents, one wants to measure the number and percent of incidents causing disruption to business-critical processes. This number should go down over time as things improve.

At one financial services firm after implementing a BSC like this, everything was seen to be moving in the opposite direction. In October, their incident volume was 20,000 per month, and for November through February, incident counts jumped to more than 65,000 per month—a more than threefold increase. The number of incidents that could be solved in a day dropped by 75 percent and core system failures skyrocketed. When analyzing these numbers, the firm realized that it had delivered end-of-year changes and projects as expected, but in doing so, it had brought core systems to their knees at a time (year-end) when people tend to access their money.

Why is measuring KPIs like this so important? Because COBIT 5 charges IT organizations with creating predictable quality for the solutions and services that they enable. As stated in the Manage Quality section of COBIT 5, IT organizations need to “ensure consistent delivery of solutions and services to meet the quality requirements.” The financial services firm in the previous example failed to look at the whole picture when it was managing changes and projects to their completion.

Goals and Metrics From COBIT: Extending Disciplines and Measuring Perception
COBIT 5, like COBIT 4.1 that preceded it, has the process goals and metrics for measuring all layers of the IT stack. This includes looking at the organization from the chief information officer (CIO) level to the persona to the discipline. As important, COBIT 5 focuses equally on customer perception and on analytic measurement in its selection of KPIs. At the same time, COBIT 5 creates more business-oriented measures, rather than just measuring what is easy to do from an IT tool set. In several cases, COBIT 5 extends the definitions of disciplines beyond how practitioners define them today. The best example of this is quality. When discussing quality, most people will talk about testing. However, COBIT 5 talks about services as much as it discusses projects, and it has KPIs such as the number of service level agreements (SLAs) that include quality-acceptance criteria or the number of processes with a formal quality requirement.

Measuring Customer Perception and Producer Reality
For the management of the IT portfolio, a metric of measurement is the degree to which enterprise management is satisfied with IT’s contribution to enterprise strategy. Clearly, this can be measured by a survey. In the areas of quality, metrics provided are the average stakeholder satisfaction with solutions and services and the percent of stakeholders satisfied with IT quality. This means COBIT wants both reality and perception measured.

Linking IT to Business
COBIT 5, as did COBIT 4.1, challenges those in IT to move beyond tool-oriented measures to those that are oriented to the business. It is easy to measure things such as the percent of activities that are on time; however, it is harder to measure the percent of activities aligned to scope and expected outcomes. This leads to an interesting business question: Do the activities invested in actually conform to the scope and expected outcomes of stakeholders? The organization needs to verify that each investment achieves its specified business goal.

Extended Definitions of Disciplines
For most people in the software business and within IT shops, quality equals testing. However, in manufacturing, for example, this is not the case. In IT, there is a hard silo wall between development and operations. COBIT 5 defines quality as the process that aims to define and communicate quality requirements for all processes, procedures and related outcomes. This includes controls, ongoing monitoring, and the use of proven practices and standards in continuous improvement and efficiency efforts. This makes the wall between development and operations artificial. In fact, the first goal shown for quality is that stakeholders are satisfied with the quality of solutions and services. Three COBIT 5 metrics are used to measure success of this goal: average stakeholder satisfaction with solutions and services, percent of stakeholders satisfied with IT quality, and number of services with a formal quality management plan. This definition of quality is very different from most people’s concept of quality in software development or IT management.

Conclusion
COBIT 5 is a great starting point for any organization and maturity level. While it is comprehensive and demanding at the
highest level of maturity, it does not preclude one from starting by measuring what is easiest to measure. An organization can simply create a scorecard and start to improve. For its part, COBIT provides an easily navigated yet exhaustive set of goals that can be measured in flight for any state of maturity. It gives users the ability to consider where they want to go and how they will measure to get there.

Myles Suer
Is a senior manager at HP for IT performance management. In this capacity, he works with customers and partners on their performance management needs. Prior to this, Suer headed the product management team responsible for HP’s IT Financial Management and Executive Scorecard products. This included interviewing chief information officers (CIOs) regarding their needs around balanced scorecard requirements. He has 20 years of experience leading new product initiatives at start-ups and large companies. He is also adjunct faculty at the John Sperling School of Business at the University of Phoenix (Arizona, USA).

Endnotes

1 de Koning, Guido M.J.; “Making the Balanced Scorecard Work (Part 1)”, Gallup Business Journal
2 Abell, Derek; Managing With Dual Strategies, The Free Press, 1993, p. 275

©2013 ISACA. All rights reserved.